

RESOLUTION 31351

A RESOLUTION adopting a policy framework for City Light rate setting objectives, rate design policies, and marginal cost allocation among customer classes.

WHEREAS, the City Council intends to reestablish and refine a general rate setting, design and cost allocation policy framework for City Light, which was previously adopted under Resolution 30933 in 2006, but was repealed by Resolution 31187 in 2010; and

WHEREAS, the City Light Review Panel, established by Ordinance 123256 in 2010, is charged with ~~doing an assessment of~~ assessing City Light's rate design and its implementation of marginal cost allocation, by its second year of operation; and

WHEREAS, 2011 is the City Light Review Panel's second year of operation and it has included the above-mentioned assessment in its work plan beginning in mid-2011; NOW, THEREFORE,

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THE
MAYOR CONCURRING, THAT:**

Section 1. ~~Long-Term Rate Setting Objectives~~ General Statement

The ~~following long-term~~ City adopts these rate-setting objectives for the Seattle City Light ~~are hereby adopted.~~ Department.

A. Conflict Among the Objectives

The objectives are intended to provide a general policy framework that can be consistently applied to future rate reviews. Because some policy objectives may ~~unavoidably~~ conflict with others, they should be considered in their entirety to strike an appropriate balance among them when ~~developing, reviewing, and prescribing~~ establishing electric rates for customers of City Light.

B. Efficiency

A theme of these policies is efficiency: Rates should be structured so as to encourage the efficient use of resources needed to provide electrical service. This theme will find explicit expression in the allocation of costs among customers and in the design of rates to collect the appropriate shares.

C. Rate Predictability

(i) The levels of base rates (that is, before surcharges) should be changed in an orderly way over time, so as to avoid disproportionate rate changes in any given year. This goal is most likely to be accomplished through biennial updates to City Light's strategic plan and financial policies which drive its revenue requirements and hence its rates.

(ii) The structure of City Light rates should also change in an orderly way so as to avoid large changes for some customers or customer classes. Should changes in costs of service or rate design that disproportionately impact some customers or customer classes be deemed necessary to meet the goals of these policies, those changes may be phased in gradually to moderate the impact on the affected customers or customer classes.

D. Public Involvement

City Light should make available to its customers clear and understandable information about the level and structure of its rates and any proposed changes to them, and should provide its customers the opportunities for meaningful participation in the rate-making process.

A. Section 2. Revenue Requirements

City Light's revenue requirements should be consistent with the strategic plan and financial policies ~~established~~[adopted](#) for it by the City [Council](#), and electric rates should be sufficient to meet its annual revenue requirements.

~~Customer Payment of Costs~~

[Section 3. Cost Allocation](#)

~~B.A.~~ [Marginal Cost](#) of Service

~~Rates~~[To encourage the efficient use of resources, rates](#) should be based on the [marginal](#) costs of service to the customer, and should reflect changes in the [marginal](#) cost ~~of service~~ over time.

~~C.~~ [B.](#) Equity

Rates should reflect a fair apportionment of the different costs of providing service, such as providing energy or distribution, among groups of customers, generally referred to as "customer classes" or "customer rate classes."

~~A.C.~~ [Conservation Expense](#)

[Since the City Council considers that conservation is a power resource, conservation expenditures shall be allocated to all customer rate classes.](#)

~~D.~~ [Low Income Rates and Bill Payment Assistance Expense](#)

[The costs of providing low income rates and bill payment assistance to low-income residential customers shall be allocated to all customer rate classes.](#)

~~D.~~ [Efficiency](#)

~~Rates should provide incentives for the efficient use of power and power distribution resources.~~

~~This means that rates should be structured so that customers face price incentives to conserve energy and reduce peak capacity requirements.~~

~~E. Rate Predictability~~

~~The levels and structures of base rates (that is, before application of any surcharges) should be changed in an orderly manner over time, so as to avoid disproportionate rate changes in any given year for some customers or customer classes. For example, the results of changes in costs of service that might cause some customer classes to receive large rate increases whereas other classes would receive little or no rate increase could be phased in gradually.~~

~~F. Public Involvement~~

~~City Light customers should be provided clear and understandable information and opportunities for meaningful participation in the City's electric rate decision process.~~

Section [24](#). Rate Design ~~Policies~~

To further the City's desire to encourage the efficient use of both power [supply](#) and power distribution resources, City Light's base rates should be designed and structured to include the following principles:

A. Ascending Rates for Energy Blocks

Rates should be designed on the basis of ascending charges for increasing amounts, or blocks, of energy, where blocks are feasible.

B. Demand Charges

Rate schedules with demand charge components should not contain declining demand charges.

C. Residential First Block

The residential first block of electricity is intended to meet the essential needs of residential customers and should be priced at or below the average cost of service to those customers.

Essential needs include the electricity used by a typical residential customer for cooking, refrigeration, and lighting.

D. Rate Discounts

When a customer provides a portion of City Light's service infrastructure (such as a transformer owned and maintained by the customer), or when the customer is metered ~~for technical reasons~~ on the utility's side of the transformer (instead of the ~~customer's more usual customer-side, like most customers)~~ metering), the customer will receive a discount ~~from the customer's normal on~~ rates ~~will be provided. reflecting the reduction in cost of service to the utility.~~

E. Time-of-Use Rates

~~Cost-effective~~ City Light shall implement time-of-use rates, whether seasonal, daily, or hourly, ~~shall be implemented~~ where such differentiation options are feasible.

F. Low Income Rates

In all of its actions, the City has an interest in protecting the most vulnerable members of the community. Rates for qualified low-income residential customers shall continue to be lower than regular residential rates by at least 50%.

~~Section 3. Marginal Cost Allocation Among Customer Classes~~

~~The cost allocation methodology used by City Light shall allocate energy, demand, and customer costs of providing electric service among customer classes in a manner that is equitable and consistent with the rate setting objectives listed in Section 1 of this resolution.~~

~~B. Marginal Cost of Service Study~~

~~City Light rates shall be based on a marginal cost of service study, which shall be the primary basis for allocating the costs of providing electric services among the customer classes.~~

~~C. Gradualism Adjustments~~

~~If a change in the cost of service allocation results in extreme bill fluctuations for a particular customer class compared to other customer classes, a method of mitigating these bill impacts may be considered and implemented. Such mitigation may include gradually moving to rates based on full costs of service over two or more rate change periods.~~

~~D. Conservation Expense~~

~~Since the City Council considers that conservation is a power resource, conservation expenditures shall be allocated to all customer rate classes.~~

~~E. Low Income Rates and Bill Payment Assistance Expense~~

~~The costs of providing low income rates and bill payment assistance to low income residential customers shall be allocated to all customer rate classes.~~

of _____, 2012.

President _____ of the City Council

THE MAYOR CONCURRING:

Michael McGinn, Mayor

Filed by me this ____ day of _____, 2012.

Monica Martinez Simmons, City Clerk

(Seal)